

## Department Review

# Park & Recreation

### Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the Park and Recreation Department totals approximately \$89.2 million in the General Fund, an increase of approximately \$3.2 million and 12.91 FTEs over the FY 2013 Adopted Budget. Department General Fund revenues are projected to total \$34.1 million, reflecting a decrease of approximately \$3.2 million from the FY 2013 Adopted Budget.

The Department has several other funds including the Golf Course Fund, the Los Penasquitos Reserve Fund, and the Environmental Growth Funds. When all the departmental funds are combined, the Department budget totals \$117.2 million, an increase of approximately \$3.7 million from the FY 2013 Adopted Budget.

The Park and Recreation Department operates and maintains the City's recreation centers, playgrounds, athletic fields, swim-

ming pools, regional parks, and all of the City's recreational facilities. With the vital roles that these facilities and programs play within the communities, the City Council has made it a priority to restore some previously reduced service hours due to budgetary constraints in prior years.

During FY 2012 mid-year budget actions, five additional hours were added to the weekly hours for each recreation center, increasing the average weekly hours from 40 hours to 45 hours. The FY 2014 Proposed Budget proposes to continue to fund the recreation centers to provide an average of 45 service hours per week for every recreation center.

### Balboa Park

In 1915, Balboa Park was the venue for the Panama - California Exposition to celebrate the opening of the Panama Canal and the City of San Diego as the first U.S. port-of-call for northbound maritime trade. To celebrate the 100th anniversary of the 1915

SUMMARY OF PARK AND RECREATION BUDGET				
	FTE	FY 2013 BUDGET	FY 2014 PROPOSED	CHANGE
<b>General Fund</b>				
Administrative Services	15.00	\$ 2,254,732	\$ 2,367,288	\$ 112,556
Community Parks I	162.43	20,546,140	21,136,926	590,786
Community Parks II	231.51	21,387,139	21,100,774	(286,365)
Developed Regional Parks	313.87	33,356,203	34,886,977	1,530,774
Open Space	59.25	8,427,636	9,665,098	1,237,462
Subtotal General Fund	782.06	85,971,850	89,157,063	3,185,213
<b>Non-General Fund</b>				
Environmental Growth Fund 1/3	-	4,408,198	3,962,339	(445,859)
Environmental Growth Fund 2/3	-	8,078,081	8,229,966	151,885
Golf Course Fund	98.00	14,757,337	15,623,529	866,192
Los Penasquitos Canyon Preserve Fund	2.00	201,804	219,902	18,098
Subtotal Non-General Fund	100.00	27,445,420	28,035,736	590,316
<b>TOTAL PARK AND RECREATION</b>	<b>882.06</b>	<b>\$ 113,417,270</b>	<b>\$ 117,192,799</b>	<b>\$ 3,775,529</b>

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Exposition ("Centennial Celebration"), the City of San Diego entered into an agreement with Balboa Park Celebration, Inc. ("2015 Committee") to be the official and sole organizer of the Centennial Celebration. The 2015 Committee has been tasked with planning, organizing, and implementing the planned events related to the Centennial Celebration. See the Balboa Park Centennial section for additional information related to the Centennial Celebration.

The FY 2014 Proposed Budget includes 3.00 limited FTEs (1.00 Program Manager, 1.00 District Manager, and 1.00 Clerical Assistant II) to support the logistical coordination of the Centennial Celebration within Balboa Park. It is anticipated the additional positions will prepare for and carry out the events working with other City departments and necessary outside agencies such as San Diego Gas & Electric. They will report directly to the Deputy Director of De-

veloped Regional Parks (which includes Balboa Park).

### **Traffic Management Plan**

The FY 2014 Proposed Budget includes \$300,000 for a traffic management plan related to vehicle traffic within Balboa Park.

On April 24, 2013, the Mayor provided preliminary details on the proposed traffic management plan ("Traffic Plan") to the Balboa Park Committee. On weekdays, the Traffic Plan proposes to restrict vehicular traffic to the southwest corner of the Plaza de Panama, while allowing for two-way traffic to cross the Cabrillo Bridge. On weekends and holidays, the Cabrillo Bridge would be closed to vehicle traffic and vehicles would not be allowed in the Plaza de Panama. Vehicles traveling north on the Pan American Road would have to perform a U-turn just south of the Plaza de Panama fountain.

The current ADA accessible parking located

SUMMARY OF PARK AND RECREATION BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	769.15	\$ 51,609,831	\$ 34,362,019	\$ 85,971,850	\$ 37,280,754
<b>Mayor's Fiscal Year 2014 Proposed Budget Changes</b>					
Salaries & Benefit Adjustments	(0.18)	2,168,301		2,168,301	
Non-Discretionary and Info Technology Adjustments			204,271	204,271	
Addition staff to support the Balboa Park Centennial Celebration	3.00	364,545	21,000	385,545	
Support for the Balboa Park Traffic Management Plan			300,000	300,000	
Addition staff for additional acreage at North Mission Trails Regional Park	5.00	386,643	241,000	627,643	
Addition staff for additional Open Space Acreage (East Elliot and Otay)	2.00	173,756	48,000	221,756	49,700
Support for the Children's Pool Permit Processing			25,000	25,000	
Additional staff to support the expansion of Memorial Pool	0.75	21,989	5,000	26,989	2,500
Additional staff to support the West Maple Canyon Mini-Park	0.04	1,404	1,200	2,604	
New Global Positioning System Contract			25,200	25,200	
General Benefit Contribution to the Maintenance Assessment District			123,122	123,122	
Restoration of Winter Restroom Service	0.22	6,974		6,974	
One-Time Reductions and Annualizations			(958,700)	(958,700)	(742,982)
Revenue adjustment				-	(2,510,864)
Non-Standard Hour Personnel Funding	2.08	26,508		26,508	
<b>Mayor's Fiscal Year 2014 Proposed Budget</b>	<b>782.06</b>	<b>\$ 54,759,951</b>	<b>\$ 34,397,112</b>	<b>\$ 89,157,063</b>	<b>\$ 34,079,108</b>
Difference from 2013 to 2014	12.91	\$ 3,150,120	\$ 35,093	\$ 3,185,213	\$ (3,201,646)

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in the Plaza de Panama would be relocated to the Alcazar Parking lot and valet parking would be relocated from the Plaza de Panama to the parking lot located south of the Casa de Balboa.

Transportation via the new trams would be available from the Inspiration Point Parking lot to the Plaza de Panama, with multiple stops in route; however the trams will not travel beyond the Plaza de Panama.

Additional signage is anticipated as well as distinctive borders to separate vehicle routes from pedestrian areas. New landscaping (trees) and tables are planned for the cleared area within the Plaza de Panama.

As this is the preliminary Traffic Plan, the definitive details are still to be determined. However an outline of the proposed implementation phases has been developed.

Summarily, the first phase of the Traffic Plan is to commence closing the Cabrillo bridge on weekends and holidays. This is intended to commence on May 25, 2013.

The second phase is to eliminate the parking from the Plaza de Panama by diverting traffic solely through the southwest corner of the Plaza de Panama. It is anticipated that this would occur by late June / early July 2013.

The third phase would be to expand / re-configure the Alcazar Parking lot to accommodate ADA accessible parking. No time estimate was provided for the completion of this phase.

No detailed cost estimates were provided beyond the request of \$300,000 in the FY 2014 Proposed Budget. Cost estimates have

been reduced from the \$500,000 originally requested by the Mayor in the FY 2013 Mid-Year budget adjustments. The Mayor has indicated that he plans to provide many additional opportunities for public input into the Traffic Plan though no timeline was provided.

Our office can only provide a limited review of the Traffic Plan for this report. As additional details are developed through the public input process and presented by the Mayor's Office, our office will conduct additional review.

In anticipation of the undertaking of the Plaza de Panama Project, several new pedestrian trams were ordered to assist in the transportation of pedestrians throughout the parking lots and the Plaza de Panama. The new trams are incorporated into the new Traffic Plan. The annual lease payment of \$150,000 is included in the FY 2014 Proposed Budget, however the operation of the trams, the operational costs, and the corresponding funding to address the operational costs of the trams has yet to be determined.

### **Other Budget Adjustments**

The FY 2014 Proposed Budget includes the following significant budget adjustments:

- An increase of 7.00 FTEs (5.00 Park Rangers, 1.00 Drafting Aide, and 1.00 Pesticide Applicator) and approximately \$850,000 in expenditures to support additional open space acreage acquired by the City. According to a study conducted by the department, other large cities have open space acreage to park ranger ratio of approximately 650 acres

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to one park ranger. The City's current open space acreage to park ranger ratio is approximately 1,500 acres to one park ranger. The Drafting Aide positions will be partially funded by the Maintenance Assessment Districts (MADs) and will support the City and the MADs in defining, mapping, and zoning of land parcels;

- An increase of \$25,000 in expenditures related to the completion of the permitting process to close the beach at the Children's Pool during seal pupping season. Funding of \$30,000 was provided for this process during the FY 2012 Mid-Year Budget adjustments; however, any unexpended funds from this funding will revert to the General Fund at the end of FY 2013. The additional funding will ensure funds are available in FY 2014 for the completion of the permitting process.
- An increase of 0.79 FTEs (0.75 Pool Guard II and 0.04 Grounds Maintenance Worker II) and \$29,593 in expenditures to support the expansion of the Memorial Pool (40 year old pool) and additional acreage at the West Maple Canyon Mini-Park;
- An increase of 0.22 FTEs (Ground Maintenance Worker position) to reinstate restroom service in the winter months (November 1 to March 30) for the restrooms located at South Kellogg and North Mission Beach; and
- A revenue reduction of approximately \$2.5 million to reflect FY 2014 revenue projections. The largest items contribu-

tion to the reduced revenue is a reduction of approximately \$1.7 million of TOT funding for tourist-related expenditures and a reduction of \$650,000 from the transfer from the Environmental Growth Fund 1/3 to the General Fund per revised projections.

### Issues to Consider

#### ***Parks System Master Plan***

The priority for the department in the FY 2014 Proposed Budget is securing the current service levels and service hours in the FY 2014 Proposed Budget, however a potentially beneficial strategic tool that should be considered is the development of a Park System Master Plan.

A Park System Master Plan would provide comprehensive evaluations of the parks and open space systems' existing conditions. IT would also identify opportunities and constraints; articulate a method and prioritization for the equitable distribution of facilities and services citywide; recommend recreation programming; and define capital improvements and funding strategies to meet the needs of our residents and visitors. The last Park System Master Plan that was done for the City of San Diego was completed in 1956. Currently the citywide parks and open space inventory and conditions assessment is performed by internal staff in conjunction with the Development Services Department.

#### ***Recreation Center Hours***

Recreation center hours continue at 45 hours per week, per recreation center, in the FY 2014 Proposed Budget. Council members have had a high interest in restor-

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ing past reductions to recreation center hours which were budgeted at 62.3 hours per week in FY 2001. If there is interest in considering some level of restoration for FY 2014, we have included this on the list of potential revisions to the Proposed Budget and will work with the department to identify costs.

### **User Fees**

In FY 2013, the Park and Recreation Department engaged a consultant to assist in a comprehensive study of all the Department's fees, with the exception of those related to the Golf Division. Findings and recommendations from this comprehensive study are anticipated to be ready for Council consideration in mid-FY 2014. The FY 2014 Proposed Budget does not include any proposed fee revisions for the Park and Recreation Department pending the outcome of this study.

### **Capital Improvements**

It is anticipated that approximately \$16.1 million will be expended on capital improvement projects related to the Park and Recreation Department in FY 2014. The projects include facilities at Balboa and Torrey Pines golf courses, ADA upgrades (Chicano Park), and community park upgrades and improvements. Projects anticipated to expend large dollar amounts in FY 2014 include the North Park mini-park and streetscape improvement projects for construction/document work (approximately \$2.2 million); and construction work on the Central Avenue mini-park (approximately \$1.2 million).

## **Environmental Growth**

The Environmental Growth Funds (EGFs) are projected to receive approximately \$11.8 million in franchise fees from San Diego Gas & Electric, representing one-quarter of the total SDG&E franchise fees received by the City, in accordance with Charter Section 103.1a. This is a reduction of approximately \$842,000 from FY 2013. The reduction in revenue is attributed to a decline in natural gas prices. Additional information related to the franchise fees can be found in the Franchise Fee portion of the General Revenues Section in Volume I of the FY 2014 Proposed Budget.

The EGFs are allocated into a one-third and two-thirds portion, to reflect Charter provisions that up to two-thirds of revenues can be pledged for bonds for acquisition, improvement and maintenance of park or recreational open space.

In FY 2009 the EGF (two-thirds portion) retired the 1994 San Diego Open Space Facilities District No.1 General Obligation Bonds. To the extent funds exist over and above the requirements for debt service, the Charter provides that they may be used for other purposes so long as it preserves and enhances the environment and is approved by the City Council.

Since the time the bonds have been repaid, available revenues have been utilized to reimburse the General Fund for eligible park and open space maintenance activities. For FY 2014, \$9.2 million is budgeted to reimburse the General Fund for park expenses, with \$2.3 million budgeted for Regional

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Park and Open Space Maintenance which that would otherwise be funded by the General Fund. Additional funds are budgeted for reimbursement to Maintenance Assessment Districts and for transfer to the Los Penasquitos Canyon Preserve Fund.

## Golf Course

The FY 2014 Proposed Budget for the Golf Course Fund totals \$15.6 million, an increase of 1.00 FTE and approximately \$866,000 over the FY 2013 Adopted Budget. Department revenues are anticipated to increase by approximately \$1.8 million to \$18.4 million from \$16.6 million in FY 2013.

### **Significant Budget Adjustments**

The FY 2014 Proposed Budget includes the following budget adjustments:

An increase of 1.00 FTE (Public Information Officer) and \$102,446 in expenditures to develop and implement a marketing plan to increase golf play at City-operated golf courses. The 2013 Golf Plan, approved by the City Council in November 2012, provided rate flexibility for the Golf Division to entice additional rounds. Additional revenue of \$200,000 is projected as a result of the Public Information Officer position implementing a new marketing plan and increasing usage of the rate flexibility within the City-operated golf courses to optimize golf play/rounds.

An increase of approximately \$1.6 million in revenue projections due to facility and course improvements and improvements in the financial environment. The revenue pro-

jections do not anticipate any increase in golf rates to achieve the increase in revenue.

### **Issues to Consider**

In preparation of the FY 2012 budget, the City Council adopted a resolution requesting that the Mayor report to the Council on the feasibility, reasonableness and/or potential cost savings associated with eight specific budgetary proposals, including the review and potential revision of the lease payment formula for payments from the Golf Enterprise Fund to the General Fund.

On March 16, 2011, the City Attorney presented a report to the Budget and Finance Committee on options to increase General Fund revenues from the City's golf courses. The report described the formula utilized to determine the land use payment, which was established in 1995. The land use payment formula includes two components: a fixed annual rate of \$1,806 per acre, plus 9.9% of gross revenues, subject to review every five years. The per acre component was adjusted from \$1,500 to \$1,806 in December 2009 based on annual CPI increase since 2003 when it was last reviewed.

According to the City Attorney report, the annual rate component is comparable to the revenue expected under a lease arrangement similar to the one at Mission Trails. The gross revenue percentage was developed to replace the revenue the General Fund would have received from the operation of the Torrey Pines and Balboa Park Golf Courses as municipal facilities.

The report also noted that other factors could be considered if the formula was to

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be revisited, including the fair market value of the property.

Though discussed at the March 16, 2011 Budget and Finance Committee meeting, no follow up action was requested. Should the City Council continue to be interested in this concept, the Real Estate Assets Department would need to update its appraisals for the golf properties in order to evaluate the lease payment formula.

## Significant Citywide Issues

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# Balboa Park Centennial

In 1915, Balboa Park was the venue for the Panama - California Exposition to celebrate the opening of the Panama Canal and the City of San Diego as the first U.S. port-of-call for northbound maritime trade. The 1915 Exposition was a driving influence in developing many of the cultural institutions and architectural style of Balboa Park.

The California Tower and dome, which houses the San Diego Museum of Man, the Cabrillo Bridge (historic 1,500-foot-long bridge) and the Spreckels Organ Pavilion (one of the world's largest outdoor pipe organs) were built for the 1915 Exposition—some of the few permanent structures designed for the fair. The San Diego Museum Association was established in 1915 as a museum of anthropology - its name changed in 1942 to the Museum of Man (with "San Diego" added in 1978).

The former Food & Beverage Building (today's Casa de Balboa, which houses the Balboa Art Conservation Center, Museum of Photographic Arts, Museum of San Diego History & Archives and San Diego Model Railroad Museum), the Casa del Prado (San Diego Botanical Foundation, San Diego Civic Youth Ballet, San Diego Floral Association, San Diego Junior Theater and the San Diego Youth Symphony) and the House of Charm (Mingei International Museum and San Diego Art Institute: Museum of the Living Artist) were also built for the 1915 Exposition as temporary wood-and-plaster structures and have all since been reconstructed.

To celebrate the 100th anniversary of the 1915 Exposition, the City desired to create a year-long multi-faceted celebration ("Centennial Celebration") to be centered around Balboa Park.

To plan, organize, and implement the desired celebration, the City entered into an agreement with Balboa Park Celebration, Inc. ("2015 Committee") to be the official and sole organizer of the Centennial Celebration. The intended scope, quality, and impact of the Centennial Celebration, are such that the interests of the City are better served by the 2015 Committee being the lead entity organizing and managing the Centennial Celebration, rather than the City.

The 2015 Committee has taken steps to initialize the planning of the events to be undertaken during the Centennial Celebration including discussing the core programming of events with Balboa Park institutions, developing the venue allocation methodology, entering into an agreement with an internationally-known production firm, awarded \$325,000 in planning grants to Balboa Park institutions, and developed an overall timeline and initial implementation schedule.

The majority of the funding for the Centennial Celebration is anticipated to be corporate sponsorships, private donations, and some City funds. The City has approved approximately \$1.2 million to be directed to the 2015 Committee through various actions. The most recent action was the ap-



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proval of \$300,000 in the FY 2013 Mid-Year Budget adjustments. This funding was to initiate the Sponsorship Development component and create sponsor-ready presentation packages based on the premier programming content currently developed from input from park stakeholders and institutions.

The FY 2014 Proposed Budget does not include any direct funding to assist in the planning or development of events for the Centennial Celebration. However, of the \$1.6 million allocated for funding the Penny for the Arts Blueprint, the Commission for Arts & Culture is recommending that \$750,000 is allocated to the Arts & Culture Festivals Revolving Fund for use to support current Commission contractor's planning efforts for Centennial activities and events.

The FY 2014 Proposed Budget does include three additional limited FTE positions to support the logistical coordination of the events in Balboa Park working with other City departments and outside agencies such as San Diego Gas & Electric (SDG&E). An example of this coordination would be to ensure that the electric needs of the events are able to be provided by SDG&E and that the City has the capacity within Balboa Park to accommodate any SDG&E requirements.

### **2015 Centennial Initial Implementation Plan**

The following are highlights from the Initial Implementation Plan developed by the 2015 Committee:

#### May 2013

- Initial access, transportation & parking management plan

- Updated activities and programming schedule
- Business plan & budget adjustments
- Initial production schedule

#### July 2013

- Program and planning refinements
- Operating budget refinement
- Secure 30% funding for projects

#### November 2013

- Comprehensive Master Calendar
- Comprehensive Implementation Plan
- Updated business plan, budget & strategic plan

#### January 2014

- Secure second 30% funding for projects

#### June 2014

- Updates to Comprehensive Master Calendar
- Final Venue Allocation Plan
- Final Access, Transportation and Parking Management Plan
- Final Activities and Programming Schedule

#### July 2014

- Secure final 40% funding for project (project to be 100% funded)

#### December 2014

- Test and Adjust Show Systems, Lighting, Operational Systems

## Significant Citywide Issues

# Infrastructure

The City of San Diego owns and maintains a large and complex network of infrastructure assets. Underinvestment in infrastructure due to tight financial constraints in the City has resulted in deteriorating assets and a significant backlog of deferred maintenance and capital projects, currently estimated to be \$898 million just for street, facilities, and storm drains. However, this estimate is likely much higher since it is based on an outdated and partial condition assessment of the City's facilities/buildings as discussed later in this section. Infrastructure issues impact the public health, safety, and the quality of life for San Diego communities as well as the tourism industry which is an important part of the City's economy. Addressing infrastructure issues is clearly one of the highest priorities for the City.

Over the past year and a half, City staff and the Council have made significant headway toward addressing infrastructure challenges, including approving the City's first multi-year financing program for deferred capital; adopting and implementing Capital Improvements Program (CIP) streamlining reform to help accelerate project implementation and transparency; establishing a community input process for the CIP budget; and creating a City Council Infrastructure Committee in December 2012 to work towards identifying solutions.

The Infrastructure Committee has been working with City staff to move forward on important next steps, including establishing Citywide Asset Management, a recommended process for effectively and sustainably

### ***Infrastructure within the City's Area of Responsibility***

#### ***Enterprise-Funded Assets:***

- Airports (Brown and Montgomery Fields)
- Golf Courses
- Landfill (Miramar)
- Water Treatment and Distribution System
- Wastewater Collections and Treatment System
- QUALCOMM Stadium

#### ***General-Funded Assets:***

- Streets and Related Assets
- Facilities/Buildings
- Storm Drain Systems
- Parks and Recreation
- Libraries
- Public Safety
  - Fire Protection
  - Lifeguard
  - Law Enforcement

bly managing assets at a desired level of service for the lowest life cycle cost. The Committee is also working with staff to begin development of a Citywide Multi-Year Capital Improvements Plan, similar to other cities that have successful infrastructure programs, such as San Francisco, CA and San Antonio, TX. Such a plan will incorporate existing departmental capital plans, identify deficiencies or gaps, identify available funding, and assess strategies for financing priority unfunded needs.

The Mayor's Proposed FY 2014 Budget includes funding for a number of neighborhood services, including \$2.0 million in debt

# Significant Citywide Issues

service for the \$35 million CIP bonds which will be issued in this fiscal year. However, the FY 2014 Proposed Budget provides the following setbacks for infrastructure relating to Asset Management and Deferred Capital:

- Condition assessments for facilities, sidewalks, and parks totaling about \$2.3 million have not been funded.
- Starting with the next deferred capital bond issuance, DC 3, which was initially planned for June 2013, all deferred capital bond issuances are pushed back by six to nine months.
- Maintenance & Repair (M&R) (formerly called Operations & Maintenance) funding related to deferred capital is decreased from \$50 million in the Five-Year Outlook to \$49 million, about \$5.1 million less than the \$54.1 million funded in FY 2013.

Given the sheer size of infrastructure problems in the City, tight budgetary constraints, and valid and competing needs, it is critical that the City take a holistic and methodical approach to identifying Citywide priorities for infrastructure and public services.

## Asset Management

Asset Management incorporates two main concepts, including a: (1) business practice for making decisions on infrastructure based on quality data and information and (2) software system for optimizing asset maintenance, repair, rehabilitation, and replacement—also referred to as Enterprise Asset Management (EAM). The Infrastructure Committee and the City's EAM Steering

### Core Asset Management Questions:

1. What is the current state of my assets?
2. What is my required level of service?
3. Which assets are critical to sustained performance?
4. What are my best operations and maintenance and CIP investment strategies?
5. What is my best long-term funding strategy?

Committee are working toward implementing Asset Management business practices Citywide because it will provide key data and information on assets so that decision makers can identify the most effective M&R and CIP investment strategies.

## Condition Assessments

Knowing the current condition of assets is an important first step to determine the maintenance, repair, and replacement or capital projects that will be needed to meet desired service levels as well as to provide a full picture of the current backlog. The City has updated information on the condition of a limited number of its infrastructure assets, including streets, storm drains, and certain water and wastewater assets. In our March report on Asset Management (IBA-13-16) we reported that the City's biggest gaps in identifying conditions of existing assets are facilities/buildings, the park system, and sidewalks. None of these received funding in the FY 2014 budget.

In addition, the Public Utilities Department's FY 2014 budget request included \$7.6 million to assess major water and wastewater assets, including \$600,000 for facilities/buildings. Although the \$7.6 request was not funded in the FY 2014 Proposed

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Asset	Estimated Backlog	Basis for Estimate
Facilities/ Buildings	\$185 million	Three condition assessments conducted on (1) 31 public safety buildings in 2007; (2) the 5 Civic Center Complex facilities condition assessments in 2008 (Staubach Report); and (3) 443 major facilities in 2009 (Parsons Report).
Streets	\$478 million	Comprehensive condition assessment of 100% of streets completed in November 2011.
Storm Drains	\$235 million	Assessments/inspections conducted between 2010 and 2012 for all pump stations and corrugated metal pipe (CMP). Risk-based modeling for reinforced concrete pipe (RCP).
<b>Total</b>	<b>\$898 million</b>	

Budget, Public Utilities staff noted that these potentially may be added to the budget in the May Revise.

### **Facilities/Buildings**

The City reported an \$898 million deferred capital backlog in February 2012 for streets, facilities/buildings, and storm drains. The estimates for streets and storm drains are considered to be accurate since they are based on comprehensive condition assessments conducted in 2010 through 2012. The deferred capital for facilities/buildings is anticipated to be significantly higher than the estimated \$185 million since it is based on condition assessments conducted in 2007 and 2009 on 443 or 30% of the City's 1,600 facilities (or about half of the City's building space in square feet). Facilities condition assessments should be conducted about every 4 years. The Public Works Department's FY 2014 budget request included \$1.0 million for a comprehensive assessment of about 600 buildings. In addition, Public Utilities requested \$600,000 to include water and wastewater facilities/buildings in the Facilities Condition Assessment. Neither of these requests was funded in the Mayor's Proposed Budget. Public Utilities staff told us that this assessment is a priority and the \$600,000 potentially may be added to Public Utilities budget during

the May Revise.

Our office has identified the \$1.0 million Facilities Condition Assessment as a potential Council revision to the Mayor's Budget in this report. We have also identified potential resources which may be available for all or a portion of the condition assessments. Conducting a comprehensive, updated assessment for facilities is particularly important since the City is providing deferred capital bond funding for facilities projects, but lacks a full and accurate picture of facilities needs and priorities.

### **The Park System**

The Park & Recreation Department is responsible for a significant number of assets and it has been recommended since 2002 that the City conduct a formal condition of its park system as a first step for developing a Parks Master Plan. Based on staff visual site observations, aerial photography and square footage costs for a typical projects, the Department estimates its deferred maintenance and capital to be at least \$121 million. This estimate excludes buildings and new parks and does not factor in Americans with Disability Act (ADA) accessibility or environmental requirements. Park & Recreation has some deferred capital, such as basketball courts, that are deteriorating to a point that could cause them to be unsafe

## Significant Citywide Issues

GENERAL FUND CONDITION ASSESSMENTS				
	FTE	PE	NPE	TOTAL
Facilities/Buildings	-	-	\$ 1,000,000	\$ 1,000,000
Park System	0.53	13,901	250,000	263,901
Sidewalks	14.00	697,280	326,300	1,023,580
<b>Total</b>	<b>14.53</b>	<b>\$ 711,181</b>	<b>\$ 1,576,300</b>	<b>\$ 2,287,481</b>

and need to be closed, which is a disservice to community members who use the facilities and a decline in service levels.

The Department does not have a significant, dedicated funding source for capital projects and relies on limited funding sources, such as Development Impact Fees (DIF) and Regional Park Improvements Fund to fund projects. For FY 2014, Parks represent only about \$16.1 million or 6.3% of projects in the Proposed CIP Budget.

Park & Recreation requested about \$264,000 and 0.53 FTEs for a Citywide parks and open space inventory and conditions assessment to be performed by internal staff as the first phase of a Park System

Master Plan. This request was not funded in the Mayor's FY 2014 Proposed Budget. Our office has identified the \$264,000 as a potential Council revision to the Mayor's Budget and we have identified potential resources which may be available. It is important that a formal condition assessment be conducted so that the Department has a comprehensive, valid list of deferred capital projects and can take advantage of future bond funding, similarly to streets, buildings, and storm drains.

### Sidewalks

The City has not conducted a condition assessment of sidewalks. Note that per California Streets and Highway Code (5610 through 5618), sidewalks are owned and maintained by adjacent property owners. However, the City is often held liable when a citizen is injured due to sidewalk disrepair, and recent media coverage has heightened awareness of deteriorating sidewalks across the City. In addition, Transportation & Storm Water Department's (TSW) Street Division staff estimate that the deferred maintenance backlog just for lifted/raised sidewalks, for example sidewalk segments pushed up by tree roots, to be about \$4-5 million.

Although not included in its FY 2014 budget request, the Street Division has developed a \$1.0 million estimate for conducting a sidewalk assessment using in-house staff. This

#### Park System Assets:

- developed parkland-9,180 acres
- open spaces -26,280 acres
- recreation centers-56
- aquatic centers -13
- athletic fields-190
- athletic fields with lighting-87
- golf courses-3
- cemetery-1
- playgrounds -300
- skateparks-5
- dog parks-15
- outdoor basketball courts-200
- tennis courts-150
- comfort stations-160
- ball diamonds-300
- oceanfront beach shoreline-25.9 miles
- fishing piers-2

## Significant Citywide Issues

PUBLIC UTILITIES CONDITION ASSESSMENT PROGRAM			
\$ in millions	FIVE-YEAR	FY 2013	FY 2014
<b>Wastewater</b>			
As-Needed Wastewater Facilities	\$ 5.00	\$ 0.05	\$ 1.60
Programmatic Pipelines	8.00	0.03	0.80
Operation Optimization	2.50	0.10	1.65
<b>Wastewater Subtotal</b>	<b>\$ 15.50</b>	<b>\$ 0.18</b>	<b>\$ 4.05</b>
<b>Water</b>			
System-Wide AC Water Main Replacement	\$ 2.00	\$ 0.13	\$ -
Water Reservoirs and Standpipes	1.30	0.05	-
Water Transmission Pipelines (3)	3.00	0.08	0.70
Programmatic Water Transmission Pipelines	9.00	-	0.60
Operation Optimization	2.50	0.10	1.65
<b>Water Subtotal</b>	<b>\$ 17.80</b>	<b>\$ 0.35</b>	<b>\$ 2.95</b>
<b>EAM Facilities/Buildings</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 0.60</b>
<b>Total</b>	<b>\$ 33.30</b>	<b>\$ 0.53</b>	<b>\$ 7.60</b>

would include about \$697,000 for 14.00 FTEs (2.00 limited junior civil engineering and 12.00 student engineering positions) for the approximate one-year duration of the assessment. The estimate also includes \$326,000 for related non-personnel costs, such as hand-held GPS devices.

TSW staff have indicated that this assessment is a priority for the Department. Our office has identified the \$1.0 million Sidewalks Assessment as a potential Council revision to the Mayor's Budget. We have also identified potential resources which may be available for all or a portion of the condition assessments. It is important to note that, if the City moves forward with this assessment, the estimated backlog will likely be very large and it will be important to develop a policy for how the information will be used. For example, will the City be taking responsibility for repairing sidewalks or will adjacent property owners be held accountable?

### Water and Wastewater Assets

Public Utilities has a Five-Year Condition Assessment Program (FY 2013-2017) and is planning to spend about \$33.3 million over this period to assess various water and wastewater assets. The Department requested \$7.6 million to fund various assessments of water and wastewater assets, as shown in the table above. While these assessments were not funded in the FY 2014 Proposed Budget, Department staff have indicated that these assessments plus an additional \$1.9 million for water mains, reservoirs, and standpipes may be added as part of the May Revise.

### Asset Management System

An asset management system helps staff use information on assets, such as current conditions, to develop optimal maintenance and CIP investment strategies. Public Utilities has started an effort to replace its three existing maintenance management systems which are obsolete, nonstandard, and frag-

## Significant Citywide Issues

\$ in millions	FY2014	FY 2015	FY 2016	FY 2017	FY 2018	TOTAL
Public Utilities SAP EAM Project	8.40	5.47	1.75	1.75	1.75	19.12

mented with SAP EAM. The new system will cost about \$20 million over five years, beginning in FY 2014, as shown below. The FY 2014 Proposed Budget includes \$8.4 million for this project, including \$5.6 million for CIP projects and \$2.8 million for Operations & Maintenance. Currently three staff are working on the project and the Proposed Budget includes additional 2.00 FTEs.

There are several departments participating in the Public Utilities-led SAP EAM project that are being asked to provide dedicated resources at appropriate milestones in the project, such as during blueprinting. However, no specific funds were requested for this purpose in the FY 2014 Budget. For example, TSW plans to assign a dedicated liaison to represent Streets and Storm Water for about 4-6 weeks out of the fiscal year. This will be absorbed in TSW's operating budget. Note that Public Utilities is leading the effort but other departments involved are required to provide their own resources for this effort.

### Deferred Capital Funding

The City has been working to address its deferred capital backlog over the past several years. In March 2012, the City Council approved the City's first Five-Year Deferred Capital Funding Plan, known as Enhanced Option B, to begin to address the \$898 million deferred capital backlog for streets, facilities/buildings, and storm drains. Enhanced Option B provided a mix of bond funding for capital projects and cash funding for on-

going Maintenance & Repair and is anticipated to slow the rate of deterioration of assets to 5-10%. Note that the cash funding was previously referred to as Operations & Maintenance (O&M), but we are correcting this terminology since the funds are not for operations but are for Maintenance and Repair (M&R) of the infrastructure assets. Public Works staff agree with this correction.

### Mayor's FY 2014 Proposed Adjustments

The schedule for Enhanced Option B includes the next deferred capital bond issuance (DC 3) planned for late FY 2013 as shown in the table on the next page. The Mayor's Proposed FY 2014 Budget defers this bond issuance by about six to nine months to January 2014. According to Financial Management staff, all subsequent planned bond issuances will also be pushed back. This results in a reduction of approximately \$5.6 million in debt service from the General Fund for five years—one year of savings for each of the bond issuances. The delay of the DC 3 issuance reduces debt service by about \$23.5 million over the five-year period compared with Enhanced Option B. However, it also provides \$85.5 million less in bond and cash funding than Enhanced Option B and \$170.7 less than the Status Quo Option for preventing further deterioration of assets.

The FY 2014 Proposed Budget also reduces the M&R funding by about \$1 million from the Five-Year Outlook, from \$50 million to \$49 million. This is about \$5.1 million less than the \$54.1 million funded in FY 2013 for

## Significant Citywide Issues

M&R for streets, facilities/buildings, and storm drains. Of the \$3.2 million in new M&R funding (above the base schedule in the Outlook of \$45.8 million), \$2.3 million is budgeted for street resurfacing and storm drains in TSW's budget and \$873,000 for M&R support in Public Works - General Services' Facilities Division.

### Issues for Consideration

In addition to the financial capacity of the General Fund, a number of factors should be considered when determining the best timing for issuing deferred capital bonds, including the urgency or need for the funds

to conduct high priority projects in the \$898 million backlog, capacity of the Engineering & Capital Projects (E&CP) Department to implement these projects, and spend down of existing deferred capital bond proceeds.

The City is planning an additional bond issuance of \$35 million in late FY 2013 that is not part of the original deferred capital bond schedule. About \$20.5 million will go toward projects that reduce the deferred capital backlog for streets, facilities, and storm drains. However, pushing back DC 3 and subsequent bonds will delay some high priority capital projects that do not have

DEFERRED CAPITAL OPTIONS AND SCHEDULE							
\$ in millions	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	TOTAL
<b>Status Quo/Preventing Further Deterioration (Staff analysis reported in March 2012)</b>							
Deferred Capital Net Bond (Capital Projects)	\$ 105.5	\$ 105.2	\$ 105.2	\$ 105.2	\$ 105.2	\$ 105.2	\$ 631.5
Maintenance and Repair (previously called O&M)	59.1	53.8	54.9	56.0	57.1	58.2	339.1
<b>Total</b>	<b>\$ 164.6</b>	<b>\$ 159.0</b>	<b>\$ 160.1</b>	<b>\$ 161.2</b>	<b>\$ 162.3</b>	<b>\$ 163.4</b>	<b>\$ 970.6</b>
Cumulative Debt Service	\$ -	\$ 7.5	\$ 15.0	\$ 22.4	\$ 29.9	\$ 37.4	\$ 112.2
<b>Enhanced Option B/Council-Approved Five-Year Deferred Capital Funding Plan (March 20, 2012)</b>							
Deferred Capital Net Bond (Capital Projects)	\$ 75.0	\$ 80.0	\$ 81.0	\$ 90.0	\$ 84.2	\$ 84.2	\$ 494.4
Portion of \$35 million CIP Bonds for Deferred Capital	-	20.5	-	-	-	-	20.5
Maintenance and Repair (previously called O&M)	59.1	54.1	50.0	62.0	66.0	79.0	370.2
<b>Total</b>	<b>\$ 134.1</b>	<b>\$ 154.6</b>	<b>\$ 131.0</b>	<b>\$ 152.0</b>	<b>\$ 150.2</b>	<b>\$ 163.2</b>	<b>\$ 885.1</b>
<b>Difference (Enhanced Option B minus Status Quo)</b>	<b>\$ (30.5)</b>	<b>\$ (4.4)</b>	<b>\$ (29.1)</b>	<b>\$ (9.2)</b>	<b>\$ (12.1)</b>	<b>\$ (0.2)</b>	<b>\$ (85.5)</b>
Cumulative Debt Service	\$ -	\$ 4.6	\$ 11.4	\$ 17.1	\$ 23.4	\$ 29.3	\$ 85.8
<b>FY 2014 Budget Proposal</b>							
Deferred Capital Net Bond (Capital Projects)	\$ 75.0	\$ -	\$ 80.0	\$ 81.0	\$ 90.0	\$ 84.2	\$ 410.2
Portion of \$35 million CIP Bonds for Deferred Capital	-	20.5	-	-	-	-	20.5
Maintenance and Repair (previously called O&M)	59.1	54.1	49.0	62.0	66.0	79.0	369.2
<b>Total</b>	<b>\$ 134.1</b>	<b>\$ 74.6</b>	<b>\$ 129.0</b>	<b>\$ 143.0</b>	<b>\$ 156.0</b>	<b>\$ 163.2</b>	<b>\$ 799.9</b>
<b>Difference (FY 2014 Budget Proposal minus Status Quo)</b>	<b>\$ (30.5)</b>	<b>\$ (84.4)</b>	<b>\$ (31.1)</b>	<b>\$ (18.2)</b>	<b>\$ (6.3)</b>	<b>\$ (0.2)</b>	<b>\$ (170.7)</b>
Cumulative Debt Service	\$ -	\$ 4.6	\$ 5.8	\$ 11.4	\$ 17.1	\$ 23.4	\$ 62.3
<b>Difference (FY 2014 Budget Proposal minus Enhanced Option B)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (5.6)</b>	<b>\$ (5.7)</b>	<b>\$ (6.3)</b>	<b>\$ (5.9)</b>	<b>\$ (23.5)</b>



## Significant Citywide Issues

alternate funding sources. For example, TSW staff have identified the replacement of 3 miles of corrugated metal pipes (part of the storm drain system) as high risk due to the existing condition of the pipes and potential for failure. Storm Water staff told us that if the corrugated metal pipe fails, the cost for emergency repairs is about 35% higher than a typical planned repair, in part due to the additional damage to private property and slope or streets repairs that need to be addressed.

### **Capacity for Implementing Projects**

E&CP staff told us that the Department currently has the capacity to implement about \$100 million of bond-funded projects per year. Capacity is a balancing act for E&CP. If the Department takes on too much work too quickly, then projects cannot be implemented in a timely manner and bond funds spent expeditiously. On the other hand, if the Department lacks sufficient funding for projects, then it will face challenges keeping staff working on projects and meeting revenue targets, since many E&CP staff are revenue reimbursable. The Department's FY 2014 Proposed Budget includes \$56.4 million in charges for services to other departments.

### **Status of DC Bond Spending**

The City issued \$103 million in Deferred Capital General Fund-backed bonds (DC 1)

in March 2009, which were refunded as long-term bonds in mid-2010 as part of the Master Refunding lease revenue bond issuance. E&CP reports that about \$96.7 million or 93.3% of DC 1 bond proceeds have been expended, encumbered, or pre-encumbered (projects in the process of being awarded). Most of the remaining funding has been allocated to the Juan Street Improvement Project, which will begin construction in summer 2013, and City Administration Building (CAB) Fire Sprinklers Project, which is nearly complete. Note that the CAB Fire Sprinkler Project had about \$725,000 in savings which were reallocated to other capital projects (approved by Council on April 9, 2013).

The first bond issuance as part of the Enhanced Option B Five-Year Deferred Capital Funding Plan (DC2) was for about \$75 million and issued in the summer of 2012. E&CP received the proceeds from DC 2 in August of 2012 and currently have expended, encumbered, or pre-encumbered about \$27.9 million or 37.2% of the total. Staff told us that their goal is to spend down the bond within two years (August 2014), although the bond requirements provide for three years for the bond proceeds to be expended without incurring a penalty.

<b>UPDATE ON DEFERRED CAPITAL BOND SPENDING (DC 1 AND DC2)</b>		
	<b>DC 1 (2009/2010)</b>	<b>DC 2 (2012)</b>
<b>Total Bond Proceeds (including accrued interest to date)</b>	\$ 103,678,000	\$ 75,000,000
Expended	91,208,664	3,377,526
Encumbered	5,410,965	10,000,000
Pre-Encumbered (contracts to be awarded)	125,528	14,500,000
<b>Total Draw Down</b>	\$ 96,745,157	\$ 27,877,526
<b>Percentage</b>	93.3%	37.2%

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### Catch-Up Option

One of the Guiding Principles for Structural Budget Deficit Elimination, adopted by Council in February 2010, includes developing a plan to fund deferred capital and infrastructure needs to reduce the current backlog and identifying the funding needed to prevent the problem from growing larger. Enhanced Option B was considered to be a realistic approach to beginning to address the backlog. The addition of the \$35 million bond issuance for CIP projects planned for later this fiscal year—\$20.5 million of which addresses deferred capital—may lessen the impact of deferring the issuance of DC 3. However, the City is still providing about \$85 million less in funding during the five-year period.

As long as E&CP continues with expeditious spending of existing and future bond funds, the City may want to consider an alternative for getting back on track with funding for deferred capital. As shown below, our

office has provided a potential Catch-Up Funding Option for consideration. Beginning with DC 3 in FY 2014, the four remaining bonds are increased to \$100 million each. This provides about \$65 million in additional bond funding during the five-year period over the FY 2014 Budget Proposal, only about \$19.4 million less than Enhanced Option B. As shown in the bottom row on the table below, additional debt service for the Catch-Up Option is only a total of \$7.5 million for FY 2015, FY 2016, and FY 2017 over the FY 2014 Budget Proposal. No additional debt service funds are required in FY 2014 to implement this Catch-Up Option. The Mayor's FY 2014 Budget Proposal includes \$5.6 million in debt service savings which are anticipated to recur each year through FY 2018. The Catch-Up Option includes the following savings:

- FY 2014 - \$5.6 million
- FY 2015- \$4.2 million

\$ in millions	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	TOTAL
<b>FY 2014 Budget Proposal</b>							
Deferred Capital Net Bond (Capital Projects)	\$ 75.0	\$ -	\$ 80.0	\$ 81.0	\$ 90.0	\$ 84.2	\$ 410.2
Portion of \$35 million CIP Bonds for Deferred Capital	-	20.5	-	-	-	-	20.5
Maintenance and Repair (previously called O&M)	59.1	54.1	49.0	62.0	66.0	79.0	369.2
<b>Total</b>	<b>\$ 134.1</b>	<b>\$ 74.6</b>	<b>\$ 129.0</b>	<b>\$ 143.0</b>	<b>\$ 156.0</b>	<b>\$ 163.2</b>	<b>\$ 799.9</b>
<b>Difference (FY 2014 Budget Proposal minus Enhanced Option B)</b>	<b>\$ -</b>	<b>\$ (80.0)</b>	<b>\$ (2.0)</b>	<b>\$ (9.0)</b>	<b>\$ 5.8</b>	<b>\$ -</b>	<b>\$ (85.2)</b>
Cumulative Debt Service	\$ -	\$ 4.6	\$ 5.8	\$ 11.4	\$ 17.1	\$ 23.4	\$ 62.3
<b>Difference (FY 2014 Budget Proposal minus Enhanced Option B)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (5.6)</b>	<b>\$ (5.7)</b>	<b>\$ (6.3)</b>	<b>\$ (5.9)</b>	<b>\$ (23.5)</b>
<b>IBA Catch-Up Option</b>							
Deferred Capital Net Bond (Capital Projects)	\$ 75.0	\$ -	\$ 100.0	\$ 100.0	\$ 100.0	\$ 100.0	\$ 475.0
Portion of \$35 million CIP Bonds for Deferred Capital	-	20.5	-	-	-	-	20.5
Maintenance and Repair (previously called O&M)	59.1	54.1	50.0	62.0	66.0	79.0	370.2
<b>Total</b>	<b>\$ 134.1</b>	<b>\$ 74.6</b>	<b>\$ 150.0</b>	<b>\$ 162.0</b>	<b>\$ 166.0</b>	<b>\$ 179.0</b>	<b>\$ 865.7</b>
<b>Difference (Catch-Up Option minus Enhanced Option B)</b>	<b>\$ -</b>	<b>\$ (80.0)</b>	<b>\$ 19.0</b>	<b>\$ 10.0</b>	<b>\$ 15.8</b>	<b>\$ 15.8</b>	<b>\$ (19.4)</b>
Cumulative Debt Service	\$ -	\$ 4.6	\$ 5.8	\$ 12.8	\$ 19.8	\$ 26.8	\$ 69.8
<b>Difference (Catch-Up Option minus FY 2014 Budget Proposal)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1.4</b>	<b>\$ 2.7</b>	<b>\$ 3.4</b>	<b>\$ 7.5</b>

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DEBT SERVICE RELATED TO DEFERRED CAPITAL						
\$ in millions	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	TOTAL
<b>Existing Debt Service</b>						
DC 1 (2009A/2010A) (\$103 million)	\$ 7.3	\$ 7.3	\$ 7.3	\$ 7.3	\$ 7.3	\$ 36.5
DC 2 (2012) (\$75 million)	4.6	4.6	4.6	4.6	4.6	\$ 23.0
<b>Projected Issuances</b>						\$ -
CIP Bond (2013) (\$20.5 of \$35 million) *	1.2	1.2	1.2	1.2	1.2	\$ 6.0
DC 3 (2014) (\$80 million)	-	5.6	5.6	5.6	5.6	\$ 22.4
DC 4 (2015) (\$81 million)	-	-	5.7	5.7	5.7	\$ 17.1
DC 5 (2016) (\$90 million)	-	-	-	6.3	6.3	\$ 12.6
DC 6 (2017) (\$84.2 million)	-	-	-	-	5.9	\$ 5.9
<b>Total</b>	<b>\$ 13.1</b>	<b>\$ 18.7</b>	<b>\$ 24.4</b>	<b>\$ 30.7</b>	<b>\$ 36.6</b>	<b>\$ 123.5</b>

\* Total debt service for the \$35 million CIP bond issuance is \$2.0 million. Our calculations includes debt service only on the \$20.5 million of the proceeds used for deferred capital projects.

- FY 2016 - \$2.9 million
- FY 2017 - \$2.2 million

### **Debt Service and Impact to General Fund**

The FY 2014 Proposed Budget includes deferred capital-related debt service (principal and interest) of \$13.1 million, including \$7.3 million for DC 1, \$4.6 million for DC2, and \$1.2 million for the CIP Bond, as shown above. Note that the full debt service for the CIP Bond is estimated to be about \$2.0 million, but we are including only the portion of the debt service for deferred capital—\$1.2 million.

Principal for debt service on DC 1 has been included in the Capital Outlay Fund since FY 2011, and the FY 2014 Proposed Budget includes an adjustment to move \$1.2 million in principal for DC 2 to be paid from the Capital Outlay Fund for three years (FY 2014-2016), which helps to offset the burden to the General Fund. The interest for DC 1 and DC 2 and both principal and interest for the CIP Bond Issuance of \$35 million are included in Citywide Department Expenditures and paid from the General

Fund.

The issuance of lease revenue bonds to fund deferred capital and other infrastructure projects will continue to be an important source of funding for the City, especially given the current low interest rates. However, it is important to consider that revenue bonds are backed by the General Fund and typically issued for a term of 20 to 30 years. Since debt payments are made from the General Fund, each time the City issues this type of bond, it adds a long-term obligation to the already overburdened General Fund.

Further, there is a limit to the General Fund-backed debt service as a percentage of available revenue—known as the lease burden—that the City can carry. Rating agencies generally consider lease burden percentages over 10% to be above average or high. Debt Management recently reported that our lease burden is about 4.4%. If the Deferred Capital Funding plan is implemented as shown in the table above which is estimated to slow the rate of deterioration of assets to 5-10%, our office estimates

## Significant Citywide Issues

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that the lease burden will grow to 6%.

### Maintenance & Repair

Annual Maintenance & Repair (M&R) is vital for maintaining the condition of assets. When ongoing maintenance is not fully funded, it contributes to deferred maintenance and ultimately increases the deferred capital backlog. In addition, as assets continue to deteriorate, the cost of repair will exponentially increase and can result in peripheral damage. For example, deferring roof replacement could later result in needing to replace the roof structure members, walls, and floors of a building.

The Five-Year Outlook included \$50 million for M&R for streets, facilities/buildings, and storm drains; \$4.2 million above the base schedule of \$45.8 which is included in the Five-Year Outlook. The FY 2014 Proposed Budget reduces this by \$1 million and funds \$3.2 million above the base for a total of \$49 million. This includes \$2.3 million for M&R related to street resurfacing and storm drains in TSW's budget and \$873,000 for M&R support in Public Works - General's Service's Facilities Division. Note that the FY 2014 Proposed funding is \$5.1 million less than the \$54.1 million funded in FY 2013. Our office has proposed the increase of \$5.1 million to return to the FY 2013 \$54.1 million funding level for M&R as a potential Council revision to the Mayor's Proposed Budget. We have also identified potential funding sources.

### Facilities

Public Works staff anticipate that the actual backlog of deferred capital for facilities/buildings is significantly higher than the current \$185 million estimate, and chronic un-

derfunding of Facilities Division's M&R is a contributing factor. Facilities Division provides M&R services for Park & Recreation facilities, the City Administration Build complex, and varying levels of support to the other General Fund departments. Facilities also charges for M&R services for enterprise-funded departments, like Public Utilities.

Current funding for Facilities Division is significantly below the level needed to keep up with necessary M&R of City facilities/buildings largely due to a 23.2% reduction in budgeted positions since FY 2004. The impact of chronic underfunding of the Division has resulted in:

- Over 90% of work focused on reactive break-down repair rather than scheduled preventative maintenance;
- A backlog of 1,759 M&R work order requests, up from 1,554 uncompleted works orders in January 2013; and
- About \$2.5 million in deferred maintenance projects.

Facilities Division has developed a sustainability model to recommend appropriate funding levels. The model is based on the premise put forward by the National Research Council that annual routine M&R should be between 2-4% of the current replacement value of City General Fund facilities. Current funding of \$17 million across all General Fund departments as a percentage of current replacement value is 0.7%.

Annual funding at the lower end of 2% would yield a requirement of \$47 million for M&R annually—a \$30 million deficiency. It is important to note that this increases

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"An appropriate budget allocation for routine M&R [maintenance and repair] for a substantial inventory of facilities will typically be in the range of two to four percent of the aggregate current replacement value of those facilities (excluding land and major associated infrastructure). In the absence of specific information upon which to base the M&R budget, this funding level should be used as an absolute minimum value. Where neglect of maintenance has caused a backlog of needed repairs to accumulate, spending must exceed this minimum level until the backlog has been eliminated."

National Research Council  
Stewardship of Federal Facilities (1998)

the M&R funding level for the Status Quo Funding Option for preventing further deterioration of assets, which essentially serves as a baseline or target for deferred capital funding, from \$54.9 to \$84.9 in FY 2014. This means that the City is underfunding M&R by \$40.4 million with the Enhanced Option B funding level and by \$41.4 million with the FY 2014 Budget Proposal.

Facilities Division proposed to address the deficiency with a ramp up of \$6 million over

five years beginning with its FY 2014 budget request. This request included 39.00 FTEs and \$3.1 million in personnel expenses as well as \$2.9 million in related non-personnel expenses for contracts, materials, and supplies.

The FY 2014 Proposed Budget increases Facilities Division budget by only \$873,000, including 9.00 additional FTEs and related personnel and non-personnel costs. The Proposed Budget also includes a vacancy savings adjustment of \$300,000 which will enable the Division to fill 8.00 vacant positions. Even with the additional \$1.2 million added to the FY 2014 budget, the City is still at a current replacement value significantly below the minimum 2% target.

### New Central Library

The Central Library is maintained by a combination of City staff (Library maintenance staff included) and outside contractors. The Library Department currently has contracting services (\$491,000) including security, janitorial services, and elevator maintenance. Facilities Division requested an additional 10.00 FTEs to provide M&R for the New Central Library. The FY 2014 Proposed Budget includes 1.00 FTE for a Build-

FACILITIES M&R FUNDING			
\$ in millions	FACILITIES' REQUEST	FY 2014 BUDGET	DIFFERENCE
FTEs	39.00	9.00	(30.00)
Existing positions to be filled per Vacancy Savings Adjustment	-	8.00	8.00
<b>Total FTE</b>	<b>39.00</b>	<b>17.00</b>	<b>(22.00)</b>
Personnel Expense	\$ 3.1	\$ 0.7	(2.40)
Vacancy Savings Adjustment	-	0.3	0.30
Non-Personnel Expense	2.9	0.2	(2.70)
<b>Total</b>	<b>\$ 6.0</b>	<b>\$ 1.2</b>	<b>\$ (4.8)</b>

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ing Services Superintendent in the Library Department, but does not provide funding for Facilities M&R. The Library Department anticipates expanding the current service contract to address the additional needs of the new Central Library, potentially to include M&R.

Public Works staff noted that much of the dynamic equipment in the building, such as HVAC, will be under warranty for the first year, and that the Division will do its best to cover any issues that arise, but will need to receive additional positions in order to properly maintain the new library beginning in FY 2015 should the library require M&R services from Facilities.

### CIP Budget

The CIP is the City's program for installing new and replacing or rehabilitating existing infrastructure. Decisions made regarding the CIP are very important because capital improvement projects are generally large and expensive and the assets they create will be required for decades of public use.

The CIP has two major constraints related to funding. The City's infrastructure needs greatly exceed available resources and there are competing priorities for limited funds. Second, in part due to competing priorities in the Operating Budget, the General Fund is not a primary source of funding for the CIP. Instead capital projects are funded by various sources that have restrictions on how they can be used, for example based

SUMMARY OF CHANGES IN CIP BUDGET BY DEPARTMENT				
\$ in millions	FY2013	FY 2014	\$ CHANGE	% CHANGE
<b>Enterprise Funded Departments</b>				
Airports	2.4	-	(2.4)	-100.0%
Environmental Services	4.6	0.6	(4.0)	-87.0%
Public Utilities	161.6	119.7	(41.9)	-25.9%
QUALCOMM Stadium	-	0.8	0.8	100.0%
<b>Subtotal Enterprise Funded Departments</b>	<b>168.6</b>	<b>121.1</b>	<b>(47.5)</b>	<b>-28.2%</b>
			-	
<b>General Fund Departments</b>				
Department of Information Technology	1.1	-	(1.1)	-100.0%
Fire-Rescue	1.0	0.2	(0.8)	-80.0%
Library	-	1.1	1.1	100.0%
Park & Recreation	10.7	16.1	5.4	50.5%
Public Works - General Services	3.6	1.2	(2.4)	-66.7%
Transportation & Storm Water	30.0	31.8	1.8	6.0%
<b>General Fund Subtotal</b>	<b>46.4</b>	<b>50.4</b>	<b>4.0</b>	<b>8.6%</b>
<b>Total</b>	<b>\$ 215.0</b>	<b>\$ 171.5</b>	<b>\$ (43.5)</b>	<b>-20.2%</b>

## Significant Citywide Issues

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on the type of project or geographic location. It is important to note that enterprise funds—including airports, golf courses, and water and sewer funds—can only be spent on projects. As a result of these restrictions, there is relatively little discretionary funding available and some asset types, particularly water and wastewater, have significantly more funds than others.

### Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the CIP is \$171.9 million, a decrease of 20.2% or \$43.5 million over FY 2013. The reduction is largely due to a \$34.3 million decrease in budgeted water projects. Public Utilities staff told us that this reduction is due to the availability of \$177.7 million in prior-year continuing appropriations that the Department plans to draw down for water pipeline and other projects.

The FY 2014 Proposed CIP Budget includes \$9.3 million for 12 new projects, and increase of \$1 million over FY 2013. The Proposed Budget also includes \$162.3 million for 95 continuing or ongoing projects which represents a decrease of \$43.3 million from the previous fiscal year.

It is important to note that the Proposed CIP Budget does not include proceeds from three anticipated bond issuances:

- The \$35 million bond issuance for CIP projects is anticipated to be issued in FY 2013. Debt Management plans to amend the FY 2013 CIP Budget to include these funds once the issuance is completed.

- A bond issuance of about \$53 million for the Convention Center Expansion Phase III is anticipated to be completed in FY 2014.
- The third deferred capital bond issuance of \$80 million is planned for January 2014. Both the Convention Center bonds and DC 3 could potentially be added to the FY 2014 Budget in Mid-Year Adjustments.

### Public Input for the FY 2014 CIP Budget and Multi-Year Capital Improvements Plan

E&CP worked with the Community Planners Committee (CPC) to facilitate public input on ongoing and needed capital projects for the FY 2014 Budget. In late November, the CPC submitted about 225 projects recommended by 42 Community Planning Groups to E&CP. The recommendations were passed on to asset-owning departments for consideration in their FY 2014 CIP Budgets.

The Transportation & Storm Water Department's (TSW) Transportation Engineering Operations (TEO) Division included 10 of these requested projects for sidewalks and streetlights in their Proposed Budget for Annual CIP Allocations. TEO staff told us that, for project requests that included a specific location, they conducted a site investigation, prepared cost estimates, and prioritized projects.

E&CP staff are currently working to determine the total number of project requests made through the CPC that are being funded in the FY 2014 Proposed CIP Budget

## Significant Citywide Issues

### **CPGs Recommended Projects Included in the Proposed Budget:**

#### **Sidewalk**

- 63rd St from Broadway to Imperial Ave (Both Sides)- Install new sidewalk
- Bernardo Center Dr from Bernardo Center Ct to Escala Dr(East Side)-Install new sidewalk
- Rancho Bernardo Rd from Via Del Campo to Matinal Rd (South Side)- Install new sidewalk
- Genesee Ave from Mt Herbert Ave to Chateau Dr (East Side)- Install new sidewalk

#### **Streetlights**

- Beyer Boulevard west of Fantasy Lane 175', north side streetlight
- East Beyer Boulevard north of Hill (SB) Street 175', east side streetlight
- Hill (SB) Street north of Beyer Boulevard 150', east side streetlight
- Kelton Road north of Kelton Place 250', west side- streetlight
- Kelton Road north of Kelton Place 500', west side- streetlight
- Kelton St at Kelton Crt- streetlight

FTEs on a part-time basis to provide administrative support to the CIP Review and Advisory Committee (CIPRAC), such as organizing meetings, recording minutes, analyzing data and generating reports. E&CP staff noted that one of the biggest challenges will be identifying staff with the needed skills to coordinate among various departments involved in the CIP and develop the Multi-Year Capital Improvements Plan. When the time comes, the City may want to consider forming a task force of staff from relevant departments to work on this project on a part-time or as-needed basis to ensure that all perspectives are covered and E&CP does not have to bear the entire burden of the task.

and will likely be prepared to address this issue during CIP budget hearings. Since there is relatively little discretionary funding and only 12 new projects in the Proposed CIP Budget, it is anticipated that only a few of the requested projects will be implemented in FY 2014. As the City moves forward with development of a Multi-Year Capital Improvements Plan, City staff will be able to more effectively plan to include community requests over five years rather than in an annual budget.

As reported by the City Auditor in June 2011 (OCA-11-027) the City does not have an office to oversee and coordinate CIP activities. Currently, E&CP donates about 4.00